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## THE RICARDO CENTENARY—DISCUSSION

ALVIN S. JOHNSON: The work of Ricardo is in need of no further appreciation; it has received even justice at the hands of Professors Hollander and Bonar, the authorities best qualified to pass judgment upon it. In a sense, we are all, undoubtedly, Ricardians. The content of our teaching is influenced greatly by the work of Ricardo, and our methods of theoretical investigation are influenced by it still more. Where we succeed it is largely because we are Ricardians; where we fail it is partly because we are human and partly because we are Ricardians.

Ricardo's habit of thought—what gives it its abstract character—is not that of the schoolman, who searches for the most general phenomena in his field, and seeks to explain them. Ricardo selects practical issues, interesting to him and to his age, and pursues their explanation relentlessly, discarding the facts that do not bear upon them, not as unimportant, but as irrelevant.

This method of theoretical construction, although perhaps more characteristic of Ricardo than of any other economist, can not properly be called Ricardian. It was a method used by Aristotle and William James, and in the intervening centuries, by all who were both philosophers and wise men. It is the pragmatic method, lately rechristened and popularized. Now, whatever the merits of this method, the positive results attained by it are valid and important only with respect to the needs of a given time. So long as the practical problems which give rise to a theoretical construction of this nature live and hold the center of interest, so long will the construction remain worth while—and no longer.

The practical problems that attracted the attention of Ricardo were the related problems of international trade, currency, and taxation. Other problems did indeed confront him, but most readers of Ricardo will admit that they appear incidentally compared to those which I have mentioned. For problems of this nature, it is obvious that a theory laying stress, not upon quantities, but upon proportions, will be effective. Not absolute value but relative value, not absolute incomes but relative incomes, are the significant phenomena. We ask, how does the imposition of a certain tax affect the relative price of commodities? How does a rise in the value of corn affect relative incomes?

These practical problems are still with us, and it is significant that the theoretical system that best enables us to deal with them is the classical, or Ricardian. After all, the contributions made by the newer theory to the analysis of international trade, taxation, and currency are of doubtful significance. The facts have changed somewhat; the treatment of these subjects has undergone modification, but its basis is still Ricardian.

We have, however, other problems, in which the present age is perhaps more interested than in the ones I have mentioned. We are interested in distribution, not as a mere matter of proportions, but as one of absolute quantities. We desire to understand the forces making for the improvement or deterioration in the absolute welfare of the laborer. We can get no satisfaction from the view that as the portion of labor increases that of capital diminishes. Nor can we get any satisfaction from the Ricardian formulation of the supposed ultimate minima of wages and profits. What is given in our problem is a value mass to be distributed; how far quantitative relations of the productive factors, how far personal strategic relations, determine this distribution are among the questions we are compelled to raise. And just as Ricardo abstracted, so far as possible, from distributive relations, in his value analysis, so we are justified in abstracting from value relations, except in so far as they give a clue to the constitution of the value mass to be distributed.

And here, I believe, is the place we must accord to the psychological theorists. Their function is to explain, not the exchange relations of commodities as such—a work better done, for practical purposes, by Ricardian economists—their function is to explain the constitution of the value mass or distribuendum. Whether they do this satisfactorily or not need not concern us here. What does concern us is that they do not represent “a minor tributary” to the main stream of Ricardianism; they represent a new stream, an attempt at a new formulation, to meet new practical needs. As our practical problems, then, are subject to a twofold grouping, so we are justified in supporting two different formulations of theory. We are likely to succeed just so far as we apply to our problems the theoretical system, Ricardian or non-Ricardian, that is constructed with special reference to them.

LEWIS H. HANEY: In considering the learned and interesting

essays now under discussion, the first point that strikes one's attention is a notable agreement in emphasis. They unite to lay emphasis upon Ricardo's contributions to the theories of money, of taxation and of foreign trade. The general student more frequently reads of Ricardo's doctrine of rent and of his notions concerning the measurement of value. It is notable, then, that in these centenary tributes, the finger is pointed to the more special theories—theories, in whose development, it will be observed, their author's environment and training afforded peculiar advantages. Furthermore, and equally notable, is the common emphasis of Ricardo's method of thought. Thus the great classicist's power of "mental disassociation", the "isolating power" of his mind—as Dr. Hollander admirably puts it—are referred to, and we are told that his success in important departments "has been rather in method than in results." Merely noting the first point of agreement with its significant emphasis, a few words may well be added on the score of method.

I cannot think that it is intended that Ricardo's method, in the narrow sense of that term, is a peculiar one, certainly not in so far as the use of deduction is concerned. Other economists, both before and since, have reasoned in pretty much the same fashion. The peculiarity lies, first in a twofold and intense abstractness; and, secondly, in a close connection of method proper with a characteristic, though unconscious, philosophy or metaphysics. By a twofold abstractness, is meant an abstractness which, on the one hand, concerns the facts of life as they present themselves in economic phenomena, and which, on the other hand, separates the science from other sciences and arts, however closely related. In his abstractness of the former order, Ricardo displayed both the merits and the defects which are so apt to attend upon that mode of procedure. For example, most critics admit that taken as a whole his work is deficient in verification and comparison with the facts, a deficiency which is especially in evidence in his treatment of wages. Overlooking differences in work and workers and the existence of non-competitive groups, he makes such unreal assumptions concerning motives and retarding factors as almost to make the "tendencies" and "natural" wage rates deduced by their aid the exception rather than the rule. His idea of the Malthusian principle of population certainly out-Malthuses Malthus himself. In a word, extreme ab-

straction bears fruit in a one-sided and incomplete wage theory.

But all the time the merit is there. Ricardo's thought was in advance of his English predecessors; in its schematic character it centered around a scheme or system, so far resembling the method of the Physiocrats. One thing comes first, then another; and all can be put in a nutshell. And this is no mean service. True it is that Ricardo's definition of concepts—like wealth and capital and land—have proved unsatisfactory; certainly his theories on rent, wages, and profits are regarded as incomplete and have been largely modified. It was not so much his originality in developing this or that point in theory which gave him his ascendancy; he was preceded by Quesnay, Turgot, Smith, Lauderdale, and Say. But these men left no complete and consistent *systems*. Ricardo did. He did the abstracting for the next generation. He clinched the claim of economics to be a science by giving it a backbone. We have worked out from the Ricardian scheme of distribution and along the lines suggested, merely reducing his residual element and extending his differentials.

It is another aspect of abstractness, however, that appears in the great economist's separation of his science from such related branches as ethics and politics. J. B. Say gave clear expression to advanced ideas along this line, which may easily explain Ricardo's familiar use of such phrases as "the science of Political Economy", but he was unable to put them so effectively into practice. When one reflects upon the large place that ethical and even theological elements occupied in Adam Smith's thought, the service rendered to the growth of economics as a science is made manifest.

But all this is relatively commonplace. It is not so common to realize that much of what is often attributed to method is in reality to be traced to the underlying philosophy. In our reasoning, the philosophy and the method proper enter as tacit premises, as it were, the former—the philosophy—being the more fundamental. When one thinker reaches one conclusion and another comes to a different result, we often say, "they have different points of view", and we generally mean that their philosophies of life differ. Probably one is a materialist, the other an idealist. So it is with Ricardo. He was a materialist. As such, his philosophy was opposed to the extension of social institutions. He believed that man is more a creature of circum-

stances molded by environment than a maker of his own destinies. From this philosophy, then, rather than from any peculiarity of method, flowed the greater part of such dogmas as the unqualified "principle of population", subsistence wage, equalized wages and profits, free trade, etc. In short, we are prone to lay a multitude of sins at the door of that which we call method, but which is really a complex of method and of what, for lack of a better term, may be called the philosophy.

Nor is the character of the problems which confronted him and of his class interests to be overlooked in this relation. They, too, played a part which has sometimes been confused with the method proper; for they could guide the process of abstraction and deduction.

It is in the philosophy element rather than in the use of deduction that we differ most from Ricardo. If the term realism might be used to indicate either a balancing of materialism and idealism or a superiority to either one of those philosophies, it could be said that we are more nearly realists than he. We are consequently better guarded against a one-sided application of the method proper. In the loose sense of the word, it is in this that our "methods" in pure economics most differ qualitatively from those of our predecessor.

A question has been raised concerning Ricardo's responsibility for economic radicalism. The narrow dogmatic promulgation of the labor-cost theory of value by James Mill and McCulloch is partly responsible; but, in addition to this, it seems clear to me that Ricardo did and does strongly suggest the question of injustice, and in the absolutism born of abstraction, sow the seeds of a radical reaction. "The interest of the landlord is always opposed to that of the consumer and manufacturer", runs a well-known passage, and this idea dominates his work.

Ricardo was himself a bit of a radical. The younger Mill was led to react somewhat from him. And the true view of Marx and George will not regard them as mere reactionaries, but, in part, as correctives for a certain radical element in Ricardian thought. To be sure, religion is not responsible for the excesses of intolerance, but some creed or pope may be. And Ricardo was for a time the pope of the Political Economy Club.

The methodologically self-conscious economist of today guards against misinterpretation, and so might Ricardo have done. All writers have not been so fortunate as Ricardo in

leaving behind a mass of letters to be used in exegesis of their published work—nor so wise in the selection of their editors. One must sometimes have the feeling that a man's books, like tubs, should stand on their own bottoms.

The suggestion made by Dr. Bonar that to Ricardo economics was a science of proportions rather than of tendencies is surely an interesting one, though rendered somewhat doubtful by the latter's frequent use of the word "quantity" and the interchangeable use of "portion" and "proportion." In fact, is the idea of proportion not dependent upon that of quantity? And is not the idea of tendency necessarily implied in that of a "natural" proportion? The whole point is well illustrated by Ricardo's discussion of profits. At the margin of cultivation, the aggregate product is divided between labor and capital, and distribution between them is apparently resolved into a question of proportion. But a proportion of what amount? And how proportioned? If the aggregate amount, the wages+profits-aggregate, is not a definite and limited quantity, the idea of a proportion loses significance. If, on the other hand, the amount of the wages+profits-aggregate is partly determined by the existence of a necessary minimum of profits, the amount of that minimum must be known, for otherwise it—the minimum—could rise to any point and no limit could exist to profit's portion or proportion. But Ricardo does not consider the problem from this side; he simply takes the wages to be fixed and regards them as the determining element, that is, "the *quantity* of labor requisite to provide necessities for the laborers" is the portion which determines the proportion of profits. Had he gone a little deeper into the question of quantities, his theory of profits might have been placed upon as stable a footing as his rent doctrine. He would have seen that profits, instead of depending upon wages, are independently determined in the same sense as are wages. While it does not seem to me that Ricardo always thought of mere proportions, it seems clear that his theory of profits affords an interesting illustration of such a tendency.

H. C. TAYLOR: "The effective contribution of Ricardo to economic science was not content, but method", says Professor Hollander. It is to the elucidation of this viewpoint that I wish to devote my allotted time.

Of the followers of Ricardo, some have accepted the Ricardian theory of distribution as a complete statement of the fundamentals and have devoted their time to the erection of a more lofty structure of economic philosophy based upon the Ricardian foundation. But, in accordance with Professor Hollander's suggestion, others have tried to follow Ricardo by using his method of observation and inference and proceed to a more complete study of the forces in operation in the industrial world.

When the former class of economic writers state the Ricardian theory of distribution, they are inclined to give too little attention to the accuracy of the Ricardian assumption, and often to leave off many of the modifications which Ricardo made, in order that they may get a highly unified and simple statement of economic doctrine.

Take for example the Ricardian discussion of rent. Ask any number of students of economics for Ricardo's treatment of rent and most of them will reply that according to Ricardo rent is *measured* in terms of the differences in the economic productivity of the land in use. More specifically, if a given farmer can secure \$20 more in product for a given expenditure of labor and capital on No. 1 land than on No. 2 land, the rent of the No. 1 land will be \$20 greater than the No. 2 land.

The assumptions underlying this statement are numerous. Variation in economic productivity of land is recognized and admitted by all as a fair assumption.

But this theory assumes also that all men of the class in competition for the land under consideration possess essentially the same degree of economic productivity.

The theory implies that if a given farmer can secure \$20 more return for a given expenditure of labor and capital on No. 1 land than on No. 2 land, the same thing will be true of all other farmers who may be in competition for the land. But all men who observe are familiar with the fact that there is a great difference in the economic productivity of men. Where one man can produce \$20 more produce per unit of labor and capital on one grade of land than on another grade, another farmer may be found who can produce no more than \$10 more product per unit of labor and capital on the No. 1 land than on the No. 2 land.

The fact that the one farmer in the above illustration could equally well afford to pay \$20 more for the use of the No. 1 land than for the No. 2 land is no ground for assuming



that under condition of competition he will have to pay that amount of rent. This is simply his individual estimate of what he might pay. Other farmers representing other grades of efficiency have different estimates of what they can afford to pay.

Obviously the rent that is measured in this way is not market rent, but only the individual estimate of the maximum rent which the given farmer might pay. Market rent, as market values in other instances, will be the outcome of competition among men of unequal strength upon the market, and while variation in economic productivity of land, as measured in terms of any given farmer, is an important factor in determining the amount of rent, rent cannot be said to be *measurable* in terms of such differences.

The correct theory of value applies to the annual or rental value of land, as well as it does to the market value of horses, and at any given time essentially in the same way. Every farmer who seeks maximum profits attempts to secure that piece of land which he can get at a rent which leaves the greatest margin between the amount which he could pay and the actual rent which he must pay if he takes the land.

The rent of the better grades of land will be more than the amount which the less efficient farmers can afford to pay rather than farm marginal land, but it will be less than the most efficient can afford to pay rather than farm marginal land, for the simple reason that there can be no competitor whose interest it is to push the rent as high as the strongest bidder might possibly pay.

It is strange that in the development of the modern theory of value, economists should have continued so long to identify individual estimates of the differences in the usefulness of land with differences in market rent. That Ricardo should have assumed all competitors for farm land to possess the same degree of economic productivity is not so strange, for the minds of most men were in his time obsessed with the eighteenth century philosophy of equality. But the most salient feature of the development of both philosophy and science in the nineteenth century is the evolutionary hypothesis, and this theory is based upon the existence of differences in the individuals of a species.

The adoption of this theory of evolution has given great stimulus to, and resulted in great progress in, science and philosophy, and yet economists continue to hold to the eighteenth

century assumption of essential equality of the individuals within a competing group. There were lucid moments when the Ricardian hypothesis was broken away from. Francis A. Walker appreciated the fact that men vary in economic productivity. He utilized this fact in his theory of entrepreneur profits. In this he has been quite generally followed by American textbook writers. Marshall, in his chapters on production, applies the theory of the survival of the fittest, and points out how the most efficient rise and the less efficient fall as leaders in industry.

But all alike have apparently failed to see that with the adoption of the principle of variation in the efficiency of competitors, the Ricardian theory of rent, as a statement of the *quantity* of rent, falls. Walker's theory of profits is based upon differences in the economic productivity of men of a class. It develops the idea of variable profits, due to differences in economic production of men. American economists have quite generally accepted this theory of variable profits, and yet they have adhered to the Ricardian statement of the quantity of rent, when the fundamental and oft-repeated assumption on which Ricardo bases his statement of the quantity of rent is, "There cannot be two rates of profit."

All attempts to modify the Ricardian statement of rent in such a manner as to conform to the fact of variation in economic productivity of the other factors will be futile so far as a quantitative statement is concerned. Something can be done in the way of showing how each new assumption varies the result, but when it is remembered that men varying in economic productivity are employing laborers varying in economic productivity, in the operation of the various grades of equipments in the production of a great variety of products upon various grades of land, it becomes obvious that any simple statement of the measure of rent is impossible.

One can, however, state the theory of value as applied to the annual value of land. This is what Ricardo was striving to do. He described forces and conditions which tend to increase rent, also forces and conditions which tend to decrease rent. The brief formula relating to the exact amount of rent at a given time and place is incidental to the main presentation by Ricardo of the subject of rent. The abandonment of the rent formula as long held is essential to a full appreciation of Ricardo's discussion of the rent-determining forces.

## THE DIFFERENTIAL CHARACTER OF RENT

In discussing the character of rent, Ricardo makes several assumptions or propositions which are fundamental to his theory.

*First*, it is assumed that land, as nature provides it, varies in usefulness from place to place. This variation may be due to differences in "fertility" or differences in "situation."

*Second*, it is assumed that, the quality of the labor and capital remaining the same, an attempt to increase the quantity of products secured from a given area of land will, after a certain point has been reached, result in a "diminishing return."

*Third*, it is assumed that the most useful land is "limited in quantity."

*Fourth*, that the most useful land is not the only grade of land on which men can make a living.

*Fifth*, under these conditions, population will increase until the demand for produce will make it necessary to utilize some of the less useful land, or to cultivate the first grade land beyond the point of maximum average returns per unit of investment.

*Sixth*, Ricardo assumes free competition among the bidders for the use of land.

Under these conditions, it is asserted that a payment will be made for the use of all the grades of land necessary to supply the demand, excepting the marginal or least useful grade. *Rent then is a differential surplus paid for the use of the better grades of land*, exclusive of the payment for the use of the improvements upon that land. As such it does not enter into price, for price tends to equal marginal costs. Hence a tax levied upon rent cannot influence the prices of the products of the land. Neither will a change in the recipients of rent, or an artificial lowering of rent influence the prices of the products. These were practical conclusions in Ricardo's day.

## THE INFLUENCE OF PROGRESS UPON RENT

*First*, An increase in population and capital, other things remaining the same, will make it necessary for the people to resort to less and less useful grades of land or to farm the better grades more intensively, accepting a smaller and smaller return from the succeeding investments of labor and capital. In either case an increase in rent will result (Sec. 29). "The rise of rent is always the effect of the increasing wealth of the country, and of the difficulty of providing food for its augmented population. . . .

Rent increases most rapidly as the disposable land decreases in its productive powers."

*Second*, In like manner a decrease in population and capital would have the opposite effect. "Land of a less unproductive quality will be in succession relinquished, the exchangeable value of produce will fall, and land of a superior quality will be the last land cultivated, and that which will then pay no rent" (56).

*Third, Improvements in Agriculture may lower rent.* "If eight million bushels of wheat be necessary for the support of a given population, and it be raised on land of the qualities of Nos. 1, 2, and 3; and if an improvement be afterwards discovered by which it can be raised on Nos. 1 and 2, without employing No. 3, it is evident that the immediate effect must be a fall of rent; for No. 2 instead of No. 3 will then be cultivated without paying any rent." This would, however, be accompanied by a fall in the value of produce of the land and in increased accumulation of capital. "For the profits of stock would be greatly augmented. This accumulation would lead to an increased demand for labor, to higher wages, to an increased population, to a further demand for raw produce, and to an increased cultivation. It is only, however, after the increase in the population that rent would be as high as before. A considerable period would have elapsed, attended with a positive diminution of rent."

"The improvements which increased the productive powers of the land, are such as the more skillful rotation of crops, or the better choice of manure. These improvements absolutely enable us to obtain the same produce *from a smaller quantity of land*. If by the introduction of a course of turnips [upon the field hitherto occupied by bare fallow] I can feed my sheep besides raising my corn, the land on which the sheep were before fed becomes unnecessary, and the same quantity of raw produce is raised by the employment of a less quantity of land. If I discover a manure which will enable me to make a piece of land produce 20 per cent more corn, I may withdraw at least a portion of my capital from the most unproductive part of my farm."

"*But there are improvements which may lower the relative value of produce without lowering the corn rent*, though they will *lower the money rent of land*. Such improvements do not increase the productive powers of the land; but they enable us to obtain its produce with less labor. They are rather directed to the *formation* of the capital applied to the land, than to the

*cultivation* of the land itself. Improvements in *agricultural implements*, such as the *plough* and the *threshing machine*, *economy in the use of horses* employed in husbandry, and a *better knowledge of the veterinary art*, are of this nature. Less capital, which is the same thing as less labor, will be employed on the land; but to obtain the same produce less land cannot be cultivated." And while the corn rent might be the same, the price of corn and the money rent would be lower.

"Without multiplying instances, I hope enough has been said to show, that whatever *diminishes the inequality* in the produce obtained from successive portions of capital employed on the same or on new land, tends to lower rent; and that whatever *increases that inequality*, necessarily produces an opposite effect, and tends to raise it."

Note that this analysis of the forces and conditions which influence the amount of rent can all be accepted without accepting the Ricardian statement of the exact measure of rent. It is believed that, if economists would, following Ricardo's method, proceed to describing other forces and conditions until all are catalogued and elaborated, a scientific statement of rent can in time be made. For example, starting with the general notion that rent is the price paid for the temporary use of land, and that rent is paid only for such land as is both useful and scarce, the statement may be formulated though the amount of rent paid for a piece of land varies directly with its fertility, directly with the density of agricultural population, directly with the abundance of capital, directly with the capacity<sup>1</sup> of managers, laborers, and equipments, directly with the demand for the products of the land, directly with the remunerativeness of opportunities for continuous employment upon the land or in supplementary industries, directly with the social advantages of the locality, etc.; inversely with the amount of land of the better grades available for the same lines of produce, inversely with the distance from the market, and inversely with the economic productivity of managers, workmen, and equipments (although in the long run the higher economic productivity of managers, workmen, and equipments makes possible a great increase in population, and hence a higher rent).

<sup>1</sup>Capacity is measured in terms of the number of units of the other factors which can most economically be associated with a unit of the factor under consideration.

Rent tends to adjust itself to changes in any of these conditions. Custom and lack of knowledge tend to maintain rent at the old level, whether it be too high or too low.

It is not intended to give a complete list of the conditions which should be considered, but to express the belief that if we use the work of Ricardo as a starting point for further investigation, following out one by one the various forces in operation, we may make economics a useful science.

The philosopher attempts to construct a complete and unified system of thought.

The scientists strive to see forces in operation without attempting a complete explanation and unification of knowledge.

The philosopher would use the Ricardian statements as a foundation for a superstructure of economic doctrine. The scientist should use Ricardo's work as a partially trusted guide in the early stages of an exploration into the realms of actual life, with a view to a better comprehension of the great complex of forces which drive and guide the wheels of industry and commerce. The function of the economist is to study economic forces in operation, to describe these forces, and where possible to measure them. When this process has gone far enough, economics will find a place among the sciences. So long as the minds of economists are obsessed with philosophies which obscure the facts, economics will fall short of rising to its true position as a science.